

COMPANY RESULTS

Scientex (SCI MK)

2QFY22: Both Manufacturing And Property Segments Dragged Earnings

Despite a commendable revenue growth (+5.0% yoy), Scientex's 2QFY22 core net profit was lower at RM100.4m (-1.9% yoy), mainly reflecting weaker margins from the manufacturing division. Meanwhile, the property segment's earnings also took a toll from surging raw material costs, material shortages, and changes in certain regulatory application processes. We cut our FY22 forecasts by 7% to reflect the margin compression of both segments. Maintain HOLD with a lower target price of RM4.58.

2QFY22 RESULTS

Year to 31 Jul (RMm)	2QFY22	qoq % chg	yoy % chg	1HFY22	yoy % chg
Turnover	952.0	2.6	5.0	1,880.2	10.0
Manufacturing	692.8	2.2	12.0	1,370.9	14.0
Property	259.2	3.6	(9.9)	509.3	0.6
EBIT	125.9	(5.5)	(15.6)	259.1	(6.1)
Manufacturing	53.7	(17.1)	(14.8)	118.4	(10.0)
Property	72.2	5.4	(16.2)	140.7	(2.6)
Finance costs	(4.9)	13.1	105.8	(9.2)	98.0
PBT	124.1	(4.9)	(17.0)	254.5	(8.3)
Core net profit	100.4	(13.8)	(1.9)	216.9	14.5

Margins	(%)	qoq ppt chg	yoy ppt chg	(%)	yoy ppt chg
EBIT	13.2	(1.1)	(3.2)	13.8	(2.4)
-Manufacturing	7.8	(1.8)	(2.4)	8.6	(2.3)
-Property	27.9	0.5	(2.1)	27.6	(0.9)
PBT	13.0	(1.0)	(3.5)	13.5	(2.7)
Core net profit	10.5	(2.0)	(0.7)	11.5	0.4

Source: Scientex, UOB Kay Hian

RESULTS

- Below expectations. Scientex's 2QFY22 core net profit came in at RM100.4m (-13.8% qoq, -1.9% yoy), bringing 1HFY22 core net profit to RM216.9m (+14.5% yoy). This accounted for only about 44% and 43% of our and consensus estimates respectively. This excludes RM6.7m forex loss and RM46,000 gain on disposal of property, plant and equipment.

KEY FINANCIALS

Year to 31 Jul (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	3,519	3,656	3,977	4,281	4,636
EBITDA	660	600	725	773	847
Operating profit	549	490	624	660	723
Net profit (rep./act.)	390	346	460	508	556
Net profit (adj.)	390	346	460	508	556
EPS (sen)	25.2	22.4	29.7	32.8	35.9
PE (x)	15.6	17.6	13.2	12.0	10.9
P/B (x)	2.4	2.1	1.9	1.7	1.5
EV/EBITDA (x)	10.3	11.3	9.4	8.8	8.0
Dividend yield (%)	1.9	2.3	2.3	2.5	2.7
Net margin (%)	11.1	9.5	11.6	11.9	12.0
Net debt/(cash) to equity (%)	24.5	30.3	14.4	6.7	(0.5)
Interest cover (x)	40.4	53.8	44.8	54.9	60.1
ROE (%)	16.3	12.7	15.1	15.0	14.8
Consensus net profit	-	-	502	581	620
UOBKH/Consensus (x)	-	-	0.92	0.87	0.90

Source: Scientex, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM3.93
Target Price	RM4.58
Upside	+16.5%
(Previous TP)	RM4.98

COMPANY DESCRIPTION

Scientex is one of the largest industrial packaging companies in the world and a niche property developer in Southern Malaysia.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	SCI MK
Shares issued (m):	1,551.0
Market cap (RMm):	6,095.4
Market cap (US\$m):	1,452.0
3-mth avg daily t'over (US\$m):	0.7

Price Performance (%)

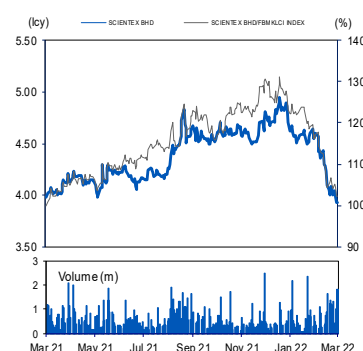
52-week high/low	RM4.95/RM3.93			
1mth	3mth	6mth	1yr	YTD
(14.6)	(16.9)	(15.3)	(1.3)	(18.0)

Major Shareholders

	%
Scientex Holdings Sdn Bhd	20.99
Scientex Infinity Sdn Bhd	9.47
Scientex Leasing Sdn Bhd	9.12

FY22 NAV/Share (RM)	2.08
FY22 Net Debt/Share (RM)	0.30

PRICE CHART



Source: Bloomberg

ANALYST(S)

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• **Manufacturing: Margin compression in consumer packaging business despite resilient revenue growth.** In 2QFY22, manufacturing revenue was relatively higher at RM693m (+12.0% yoy) but EBIT declined to RM54m (-17.8% yoy). The lower EBIT mainly reflected lower margin (-2.4% yoy) as the group's packaging business continues to face challenges from rising raw material costs and surging freight rates due to global shortages of shipping containers. Meanwhile, the higher revenue was attributed to: a) higher sales margins from its conversion businesses (Daibochi and Mega Printing & Packaging); and b) improved sales mix from its diverse range of packaging solutions and better production efficiency.

• **Property: Facing headwinds from material shortages and regulatory processes.** The property segment's revenue came in at RM259.2m (+3.6% qoq, -9.9% yoy) with lower EBIT of RM72.2m (-16.2% yoy). The lower revenue was mainly attributed to the deferment of the issuance of Certificate of Completion & Compliance (CCC) for Scientex's projects in the southern region of Malaysia due to material shortages. In 2QFY22, Scientex launched RM279m worth of new properties with unbilled sales standing at RM1,000m (1QFY22: RM965m). Management alluded that demand for property launches is stable in 1HFY22 with take-up rate of about 67%. The group also intends to launch a total of 6,000 property units across 24 launches worth about RM1.7b within FY22.

STOCK IMPACT.

• **Looking beyond temporary headwinds towards steady mid-long term prospects.** Although both its manufacturing and property segments are facing temporary headwinds, we believe that the group is still on track for a resilient mid-long term outlook. This is anchored on: a) the manufacturing segment's capacity expansion (robotic stretch film plant commencing operations in 2HFY22 which will lift domestic stretch film capacity by >10%); b) the manufacturing segment's better sales mix of value-added products which will sustain profit margins at 8-10% vs the previous 6-8%; and c) the property segment's robust contributions from its maiden launches of landed properties in Negeri Sembilan and Kedah, as well as the group's first high rise in Klang Valley in 2HFY22.

• **High resin costs to sustain, but impacts partially buffered by efficient cost management.** Resin prices surged in 2QFY22 (+8% to +26% yoy) due to a high oil price environment amid the Russia-Ukraine tensions. Note that Scientex was affected by higher resin prices (60-70% of total cost), particularly for custom films which have a longer lead time of about three months vs stretch film's 4-6 weeks as the group has a time lag in passing through the cost to customers. Nevertheless, we understand that the group usually holds about one month's inventory of raw material which will partially mitigate the impacts. Based on our back-of-the-envelope calculations, a 1% rise in resin cost will translate into additional raw material costs of 0.4%.

EARNINGS REVISION/RISK

• We cut our FY22-23 net profit forecasts by 7% and 9% respectively on the back of some house-keeping adjustments, lower margin for the manufacturing segment, and after factoring in lower property progress billings for the property segment.

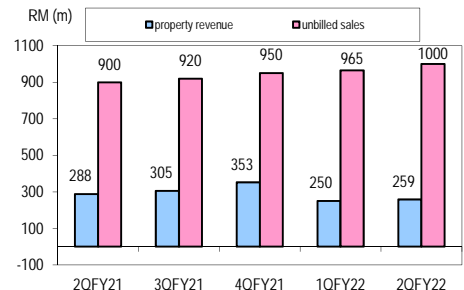
VALUATION/RECOMMENDATION

• **Maintain HOLD with lower target price of RM4.58.** Our target price implies 14x 2023F PE (+1SD above mean), which we deem is justifiable given Scientex's excellent growth track record (five-year net earnings CAGR of 11%).

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

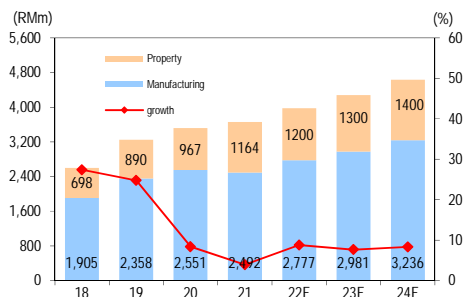
<p>• Environmental</p> <ul style="list-style-type: none"> - 1st plastic film manufacturer in Malaysia to receive the ISCC Plus Certification for post-consumer resin traceability - 8.2% decrease in group-wide Greenhouse Gas emissions in FY21.
<p>• Social</p> <ul style="list-style-type: none"> - Spent RM5.3m in community investment in response to COVID-19. - Members of local communities comprise 78% of workforce.
<p>• Governance</p> <ul style="list-style-type: none"> - Comprehended and applied Malaysian Code on Corporate Governance (MCCG)

PROPERTY SEGMENT'S REVENUE AND UNBILLED SALES



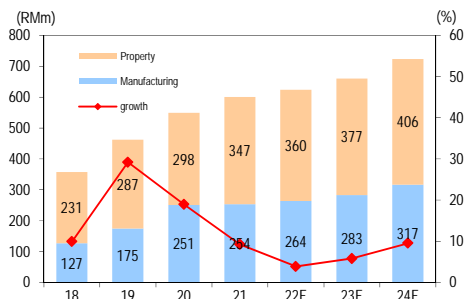
Source: Scientex, UOB Kay Hian

SALES BY SEGMENT



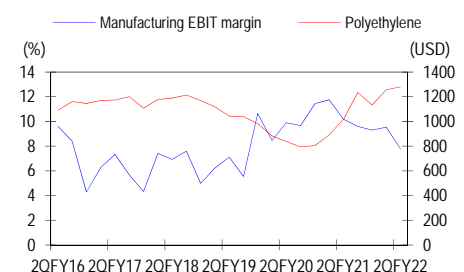
Source: Scientex, UOB Kay Hian

EBIT BY SEGMENT



Source: Scientex, UOB Kay Hian

MANUFACTURING EBIT MARGIN VS PE PRICE



Source: Scientex, Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Jul (RMm)	2021	2022F	2023F	2024F
Net turnover	3,656	3,977	4,281	4,636
EBITDA	600	725	773	847
Deprec. & amort.	110	101	113	124
EBIT	490	624	660	723
Associate contributions	12	12	12	12
Net interest income/(expense)	(11)	(16)	(14)	(14)
Pre-tax profit	490	619	658	721
Tax	(115)	(142)	(132)	(144)
Minorities	(29)	(17)	(19)	(20)
Net profit	346	460	508	556
Net profit (adj.)	346	460	508	556

BALANCE SHEET

Year to 31 Jul (RMm)	2021	2022F	2023F	2024F
Fixed assets	1,383	1,582	1,769	1,945
Other LT assets	1,777	1,780	1,780	1,780
Cash/ST investment	243	401	628	884
Other current assets	1,697	1,397	1,302	1,244
Total assets	5,100	5,160	5,478	5,852
ST debt	819	565	565	565
Other current liabilities	752	731	675	640
LT debt	301	301	301	301
Other LT liabilities	130	127	127	127
Shareholders' equity	2,896	3,218	3,573	3,963
Minority interest	202	218	237	257
Total liabilities & equity	5,100	5,160	5,478	5,852

CASH FLOW

Year to 31 Jul (RMm)	2021	2022F	2023F	2024F
Operating	700	596	679	723
Pre-tax profit	601	619	658	721
Tax	(124)	(142)	(132)	(144)
Deprec. & amort.	126	101	113	124
Working capital changes	94	18	40	23
Other operating cashflows	3	0	0	0
Investing	(776)	(300)	(300)	(300)
Capex (growth)	(776)	(300)	(300)	(300)
Investments	(20)	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	20	0	0	0
Financing	(93)	(138)	(152)	(167)
Dividend payments	(144)	(138)	(152)	(167)
Issue of shares	0	0	0	0
Proceeds from borrowings	86	0	0	0
Loan repayment	(16)	0	0	0
Others/interest paid	(20)	0	0	0
Net cash inflow (outflow)	(170)	158	226	257
Beginning cash & cash equivalent	413	243	401	628
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	243	401	628	884

KEY METRICS

Year to 31 Jul (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	16.4	18.2	18.1	18.3
Pre-tax margin	13.4	15.6	15.4	15.5
Net margin	9.5	11.6	11.9	12.0
ROA	7.1	9.0	9.5	9.8
ROE	12.7	15.1	15.0	14.8
Growth				
Turnover	3.9	8.8	7.6	8.3
EBITDA	(9.1)	20.8	6.7	9.6
Pre-tax profit	(9.9)	26.4	6.2	9.6
Net profit	(11.2)	32.8	10.3	9.6
Net profit (adj.)	(11.2)	32.8	10.3	9.6
EPS	(11.2)	32.8	10.3	9.6
Leverage				
Debt to total capital	26.6	20.1	18.5	17.0
Debt to equity	38.7	26.9	24.2	21.8
Net debt/(cash) to equity	30.3	14.4	6.7	(0.5)
Interest cover (x)	53.8	44.8	54.9	60.1

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